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THE BUDGET AND THE REGION

FISCAL 1990

A REGIONAL ANALYSIS OF
THE FISCAL 1990 BUDGET REQUESTS
SUBMITTED BY PRESIDENTS
RONALD REAGAN AND GEORGE BUSH

NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
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SUMMARY

A Regional Analysis of the President's Fiscal 1990 Budget Request

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Northeast-Midwest Institute
The Center for Regional Policy
218 D Street, S.E.
Washington, D.C. 20003

TABLE OF CONTENTS

Fiscal 1990 Budget Request

HUD Development Programs

Economic Development Administration (EDA)

Small Business Administration (SBA)

Housing Assistance

FmHA Development Programs

Appalachian Regional Commission (ARC)

General Science, Space, and Technology

Employment and Training

Education

Unemployment Insurance

Family Assistance

Medicaid

Community Services Block Grant

Energy

Low-Income Home Energy Assistance (LIHEAP)

Atomic Energy Defense Modernization

Defense

Natural Resources and Environment

Agriculture

Transportation

Savings and Loans

THE FISCAL 1990 BUDGET REQUEST

President Reagan's final budget submission proposes outlays of $1.1518 trillion, revenues of $1.0593 trillion, and a deficit of $92.5 billion--an amount lower than the fiscal 1990 Gramm-Rudman-Hollings target of $100 billion.

The administration forecasts a baseline deficit of $126.9 billion in fiscal 1990. From that starting point, the president's budget proposes $6.8 billion in new spending, $28.9 billion in reductions, $6.2 billion in user fees, and $6.1 billion in asset sales. (Asset sales cannot be counted when determining compliance with the Gramm-Rudman-Hollings deficit target. Therefore, in this context, the administration's budget produces a deficit of $98.6 billion--only $1.4 billion below the target.)

The administration's deficit estimate is based upon economic assumptions that are more optimistic than those of the Congressional Budget Office (CBO). The administration foresees GNP growth of 3.2 percent in fiscal 1990 while CBO forecasts 2.1 percent growth in GNP. The administration foresees interest rates of 5.7 percent on 90-day Treasury bills and 7.6 percent on ten-year Treasury notes, while CBO forecasts 7.1 percent and 9.0 percent, respectively. Using less optimistic economic assumptions, CBO projects a fiscal 1990 baseline deficit of $141 billion--$14.1 billion higher than the administration's forecast.

It appears that the needs of the Northeast-Midwest region did not figure prominently when the administration determined its priorities for its fiscal 1990 budget submission.

The region seems to be first in line for the administration's proposed spending cuts. On the chopping block are numerous programs vital to northeastern and midwestern states, such as the Economic Development Administration, mass transit funding, low-income energy assistance, Amtrak, sewage treatment construction grants, and community service block grants.

Unfortunately, the region seems to be last in line for the administration's proposed spending increases. The proposal recommends net outlays of $10.8 billion in 1989 and 1990 to bail out insolvent savings and loan institutions, to increase NASA funding by 20 percent, and to spend $250 million to start construction of the Superconducting Super Collider (SSC). These initiatives will send tens of billions of federal dollars to the South and West in the years to come: the vast majority of insolvent S&Ls are located in the Southwest; NASA funds flow predominantly to Florida, Texas, and California; and the Department of Energy recently decided to site the SSC in Texas.

Following are highlights of the administration's fiscal 1990 budget proposal.

- **HUD DEVELOPMENT PROGRAMS** -- Consistent with his past budget submissions, the president again proposes to reduce or eliminate the economic and community development programs of the Department of Housing and Urban Development (HUD). These programs provide essential support for local projects, including many activities targeted to distressed areas.

Community Development Block Grants (CDBG). The budget request calls for $2.650 billion in new CDBG authority for fiscal 1990. This amount would be supplemented by the transfer of $86 million in unobligated funds from the Section 312 rehabilitation loan fund, which is proposed for termination; it also includes an anticipated $50 million in fiscal 1990 recaptures from the UDAG program. Thus, total CDBG budget authority for fiscal 1990 would be $2.786 billion, the lowest funding level for the program since 1976. The fiscal 1989 appropriation for HUD provided $3 billion in CDBG resources.

Section 108 Loan Guarantees. The administration again proposes to terminate the Section 108 program that entitlement cities use to leverage CDBG funds for physical and economic development projects. No new guarantee commitments for fiscal 1990 are requested, and HUD will seek legislation to repeal the program. Congress authorized $144 million in guarantees for fiscal 1989. Section 108 obligations are financed through underwritten public offerings. Cities in the Northeast and Midwest have used more than 60 percent of the guarantees approved since the program began.

Urban Development Action Grants (UDAG). The administration proposes to repeal the UDAG program and shift an expected $50 million in fiscal 1990 program recaptures to the CDBG program. No new award cycles are planned. The fiscal 1989 HUD appropriation contained no new UDAG funding, although Congress permitted the program to continue to make awards using recaptured prior-year funds. The administration, however, proposes to rescind the estimated $52 million that could be awarded during this year's funding rounds.

Enterprise Zones. With the selection of Rep. Jack Kemp as the new HUD secretary, this geographically-targeted development program will take on new prominence. Both the current and incoming administrations endorse this approach to economic development. HUD is about to implement a limited incentive program authorized by Congress in 1987; legislation has already been introduced in the 101st Congress (HR 6) to provide additional tax incentives for investments in designated zones.

- **ECONOMIC DEVELOPMENT ADMINISTRATION** -- The president has proposed for the eighth time to eliminate EDA. The administration maintains that its programs are "unresponsive to local needs" and serve only narrow local and regional interests at the public expense. The budget requests no new EDA program spending in fiscal 1990.

  Because of strong congressional support, EDA has continued to operate, albeit with a small program budget. Congress appropriated $182 million for EDA for fiscal 1989; this included $126.5 million for public works, $23 million for state and local development planning, and $24.7 million for economic adjustment assistance. Legislation has already been introduced into the new Congress (HR 10) authorizing $325 million annually for revamped and more targeted economic development assistance that would require major involvement by the private sector. EDA economic adjustment assistance, traditionally associated with plant closings and other economic disruptions, will take on special importance in communities that could be affected by the recently announced military base closings, since no new sources of funds to ease the economic transition are provided for those jurisdictions.

- SMALL BUSINESS ADMINISTRATION (SBA) -- This year's budget proposes the elimination of all direct SBA lending, consistent with past administration proposals. The president requests a $2.951 billion SBA loan guarantee level in fiscal 1990 for programs operated under the Business Loan and Investment Fund, about 6 percent less than the congressionally-authorized level for fiscal 1989. To achieve this goal, the budget requests $107 million in new capital for the fund. The administration also proposes administratively increasing user fees for a number of technical assistance and financial programs.

  All requested business assistance would be in the form of loan guarantees. For fiscal 1990, the president asks for a $2.453 billion limit for Section 7(a) general business loan guarantees, a $332 million level for Section 504 development company debentures, and $118 million for SBIC loans financed through private markets. All direct loan programs--MESBICs, handicapped, economic opportunity, and veterans--would be terminated, according to the budget request, although MESBICs would be converted to a guarantee program, at a $36 million level. For fiscal 1989, Congress authorized $3.154 billion in guaranteed loans, which included $2.421 billion for Section 7(a), $450 million for Section 504 (26 percent more than the new request), and $233 million for SBICs (nearly double the fiscal 1990 proposal). Congress also provided $90 million for direct loans through five small programs (including $36 million for MESBICs) and $45 million for Small Business Development Centers, SBA's major technical assistance program.

  The administration would continue some of SBA's technical assistance programs, although the cumulative level of support is proposed to be reduced significantly. The president would like to eliminate the popular Small Business Development Center (SBDC) program. One of SBA's largest and most successful technical assistance initiatives, the SBDC program received $45 million for fiscal 1989. The administration also would like to reorganize federal minority assistance efforts by transferring and consolidating all of the Department of Commerce's minority business development programs within SBA.

- HOUSING ASSISTANCE -- The Reagan administration continues to emphasize the voucher approach to housing assistance in both urban and rural areas, and seeks cuts in "bricks and mortar" housing construction and modernization programs.

  Section 8 and Housing Vouchers. The president seeks $6.532 billion in budget authority to reserve 124,333 lower-income housing (Section 8) units in fiscal 1990. This number includes 109,000 incremental (new to the inventory) units. The balance of 15,333 units covers tenants already in subsidized housing who must be relocated because of expiring Section 8 rental assistance contracts, opt-outs, demolitions, prepayments, and property disposition. Nearly two-thirds of these tenants would be given housing vouchers instead of new units. Overall, proposed fiscal 1990 Section 8 activity would increase the total number of units receiving assistance by nearly 4 percent, to 2,524,100.

  The fiscal 1990 Section 8 proposal includes $555 million in authority for 4,000 new housing units for elderly persons. These units would be built under the Section 202 loan program; applications under the two programs are processed simultaneously. (Congress authorized $1.077 billion for 7,921

Section 202 units for fiscal 1989.) The budget proposes a new credit voucher program for 1990 to replace the current direct loan program; HUD would award credit vouchers to non-profit project sponsors, who would then negotiate private below-market-rate loans to finance the housing units. In addition, the administration proposes rehabilitation of 2,000 single-room occupancy (SRO) units under the Section 8 program.

The budget proposal includes administration projections of future Section 8 rental assistance program expirations: 296,000 unit contract expirations in fiscal 1991; 252,000 units in fiscal 1992, 209,000 units in fiscal 1993, and 186,000 units in fiscal 1994. The administration proposes replacing these 943,000 units with housing vouchers, which will cost more than $28.3 billion through fiscal 1994.

Public Housing. More than 3.5 million poor persons currently live in the nation's 1.4 million public housing units. Nearly a million more people have signed onto lengthy waiting lists to occupy public housing units. Yet the administration again proposes to reduce available public housing resources, requesting no fiscal 1990 funds to develop new HUD public housing units. Congress reserved $343.3 million for the development or reconstruction of 6,947 units (1,396 of these for Indian housing) in fiscal 1989.

The president also would like to reduce available public housing modernization (CIAP) funds by 39 percent, from the $1.649 billion appropriated for fiscal 1989 to $1.000 billion in fiscal 1990. Starting in 1990, he proposes a limited "fund matching" program, in which $250 million (of the $1 billion) would be given to public housing agencies willing to provide matching funds on a dollar-per-dollar basis. Adequate modernization funding is especially critical to the region's housing authorities that oversee much of the nation's oldest and least-energy-efficient housing stock. The administration also seeks $1.694 billion in public housing operation subsidies, $77 million more than Congress appropriated for fiscal 1989.

Rental Rehabilitation. The administration proposes to maintain the level of rental rehabilitation grants, which support renovation of privately-owned rental housing. HUD would receive an appropriation of $130 million, combined with $20 million in recaptured prior-year funds, to provide a fiscal 1990 program level of $150 million. In fiscal 1989, Congress appropriated $150 million for these grants.

Rural Housing. The Rural Housing Insurance Fund (RHIF) administered by the Farmers Home Administration (FmHA) insures or guarantees rural housing loans for single or multi-family dwellings and makes rental assistance payments to qualifying individuals and families. The fiscal 1990 budget seeks to shift nearly all FmHA housing help from subsidized loans for construction to the use of housing vouchers for rental payments. This proposal was first included in the fiscal 1988 budget request.

The president seeks to eliminate all new program activity except for $100 million in direct loans for 2,000 units in the Section 515 rural rental housing program; these funds will be targeted to areas with severe shortages of rental housing. Among the RHIF rural housing programs the administration seeks to terminate are Section 502 housing loans to low-income persons;

Section 504 housing repair loans for very low-income persons; and Section 502(c)(5)(D) rental housing assistance. Congress approved a $2.135 billion RHIF program level for fiscal 1989 to help 44,400 units in small towns and rural areas. Besides the 2,000 Section 515 units, all additional rural housing assistance in fiscal 1990 would take the form of vouchers; the president requests $360 million in FmHA authority for 20,000 new five-year vouchers to replace traditional rural housing assistance.

Other Housing Assistance Programs. In 1987, Congress authorized a new program for handicapped persons, Section 202(h). Unlike the regular Section 202 program, it is not linked to the Section 8 rental assistance program. The administration proposes $458 million in budget authority for 3,000 Section 202(h) units for fiscal 1990, an increase of 625 units from the approved fiscal 1988 level. Like Section 202, the handicapped program also is proposed for conversion from a direct loan program to a credit voucher program in fiscal 1990. The president also seeks no additional funding for the new federal Nehemiah housing opportunity grant program, and proposes rescinding $20 million appropriated for fiscal 1989.

- FmHA DEVELOPMENT PROGRAMS -- The administration's budget proposes a $95.7 million level for industrial development loan guarantees in fiscal 1990, which would help an estimated 81 projects. (The congressionally-approved fiscal 1989 level of $295.7 million will help 750 projects.) The administration would like to convert the existing community facility assistance program from insured loans to guarantees. At the same time, it proposes to reduce the size of the program by 48 percent, from the $95.7 million authorized for fiscal 1989 to $50 million in fiscal 1990. Both of these programs are authorized under the FmHA Rural Development Insurance Fund.

  According to the administration, this budget proposal places "a new emphasis" on programs and policies "that promote local solutions to local problems." To this end, the president seeks to reorganize and strengthen federal programs that comprise his rural development initiative. The budget plan emphasizes technical assistance and information dissemination as key elements of the rural development process, and relies more heavily on private financial institutions--through the increase in loan guarantees--to spark economic recovery in small towns and rural areas.

- APPALACHIAN REGIONAL COMMISSION (ARC) -- Terming its activities unnecessarily duplicative of other federal programs, the administration again seeks to discontinue ARC highway, jobs, and investment programs. The fiscal 1990 budget proposes new new funding for these activities, which serve predominantly rural areas in the 13 Appalachian states. In fiscal 1989, Congress authorized $110.7 million for the ARC. Legislation has been introduced in the 101st Congress (as part of HR 10, which would reauthorize and restructure EDA) to continue ARC programs. That bill would authorize $39 million for economic enhancement grants and $79.5 million for highway projects in fiscal 1990.

- GENERAL SCIENCE, SPACE, AND TECHNOLOGY -- The president proposes to increase the budget authority for general science, space and technology programs by 20 percent to $15.548 billion in fiscal 1990. Programs included under this category are the National Science Foundation (NSF), the National Aeronautics and Space Administration (NASA), and the general science programs in the

Department of Energy. These programs support basic research (most of which is nonmilitary in nature), and account for well over one-third of total federal funding for such research.

The budget request includes $2.171 billion for NSF--a 14 percent increase from fiscal 1989. This amount reflects the continued commitment of the administration to increase investments in basic research. This year's proposal includes funds for a second competition for Science and Technology Centers.

The president's budget proposal also requests an increase in budget authority of 27 percent to $1.169 billion for the general sciences programs of the Department of Energy. It recommends allocating $250 million of that amount to begin construction on the Superconducting Super Collider. Fiscal 1990 would be the second year of funding for the eight-year, $5.300 billion construction project, which has recently been sited in Texas.

The fiscal 1990 budget request for NASA is $12.207 billion--a 20 percent increase from fiscal 1989. Activities outlined in the budget request include: continued development of the space station, the space shuttle, other related space flight research, and planetary exploration. The administration also has requested increased funding for continued research on the hypersonic National Aerospace Plane (also known as the "Orient Express").

The administration's budget request for research and development throughout all federal agencies totals $69.800 billion, a 7 percent increase over fiscal 1989 levels. Defense-related R&D programs would continue to receive a disproportionate amount of the total federal R&D funding--65 percent in fiscal 1990, up from 51 percent in 1980. However, the budget also continues to reflect the administration's commitment to increased basic civilian R&D funding; it recommends an increase of 6 percent to $11.160 billion in fiscal 1990.

Despite the heavy concentration of industry in the Northeast and Midwest, the region receives 38 percent of the entire federal R&D budget. The largest disparity can be found in the Department of Energy and NASA, which spend only 27 and 29 percent of their budgets in the Northeast-Midwest region, respectively.

- **EMPLOYMENT AND TRAINING** -- The president's request for fiscal 1990 proposes budget authority of $5.259 billion for employment and training, a decrease of $134 million from current amounts, and outlays of $5.308 billion, down from $5.384 billion in fiscal 1989.

  Job Training Partnership Act (JTPA). The budget calls for level-funding at $1.788 billion in budget authority for the core section of the Job Training Partnership Act, Title IIA block grants to states for training programs for the economically disadvantaged. These funds are expected to serve over one million people, the same number as this year. The Summer Youth Employment and Training Program (SYETP), Title IIB of JTPA, also would be level-funded at $709 million for jobs in the summer of 1991. As in previous years, the administration recommends that legislation be enacted to allow states to operate a year-round program of remedial education and basic skills training, a subsidized summer jobs program, or a mixture of both. Another

JTPA youth program, the Job Corps, would be funded at $762 million to support 40,500 training slots, the same number as this year.

Dislocated Workers. The president's budget requests spending authority of $400 million for the new Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) enacted as part of the Omnibus Trade and Competitiveness Act of 1988. This figure is far short of the $980 million proposed in the president's last two budgets when the program was still in the talking stages. The $284 million currently appropriated for the previous JTPA Title III dislocated workers' program will be available for transition to and for activities authorized under EDWAA. The administration proposes no new funding for the Trade Adjustment Assistance (TAA) program, under the assumption that EDWAA services will be available for those workers whose jobs are adversely affected by foreign trade. The elimination of funding for TAA was proposed in last year's budget as well, but Congress rejected that proposal.

Other Employment and Training Programs. The budget request proposes funding the Employment Service at $1.002 billion, a decrease of $67 million from fiscal 1989 levels. As in previous years, no funds are requested for the Work Incentive (WIN) program, although this time around WIN-type job opportunities and basic skills training are expected to be provided by the newly enacted Family Support Act of 1988 (see below). Finally, in another reprise of previous budget requests, the Targeted Jobs Tax Credit (TJTC) would be allowed to expire, as scheduled, on December 31, 1989.

- **EDUCATION** -- The president's budget for fiscal 1990 proposes to increase funding authority for education programs to $25.485 billion, up from $21.807 billion for fiscal 1989. Outlays are expected to total $24.117 billion, up from $20.480 billion currently.

Selected Elementary and Secondary Programs. Chapter I, the major federal program of compensatory education for disadvantaged youngsters, would be funded at $4.730 billion, an increase of approximately $150 million over its present amount. School improvement programs would be funded at $1.201 billion, as compared with the current $1.217 billion, with the largest of these programs, the state block grant, receiving budget authority of $479 million.

Adult and Vocational Education. The president proposes budget authority of $170 million for adult education, the primary federal literacy effort, an increase of $8 million over current levels. The administration also is requesting new budget authority of $949 million for vocational education, a slight increase over present funding.

Higher Education. The president's budget requests $13.718 billion in budget authority, an increase over the fiscal 1989 enacted level of $10.243 billion. This year's substantially higher request, however, includes an estimated $4.013 billion, which is the estimated amount realized from a new credit reform proposal. Requested budget authority for student financial assistance in fiscal 1990 is $5.845 billion, an increase of $31 million. The budget also requests $4.7 billion in fiscal 1990 for the Pell Grant program, approximately level with this year's funding. In the area of loan programs, the budget calls for new spending authority of $3.130 billion in the Guaranteed Student Loan program, down from the current $3.504 billion.

It also calls for expansion of the Income-Contingent Loan program from $4.9 million in fiscal 1989 to $20 million in fiscal 1990. This expansion is proceeding at a much slower pace than originally envisioned; last year's budget proposed an increase to $50 million, and the previous year's budget requested a level of $600 million. As in last year's budget, however, the expansion of the Income-Contingent Loan program is offered in place of a request for new funds for Perkins Loans or State Student Incentive Grants, which were funded at $255 million in fiscal 1989.

- **UNEMPLOYMENT INSURANCE** -- The president's budget estimates total outlays for unemployment compensation (UI) at $16.050 billion in fiscal 1990, up from $15.782 billion in fiscal 1989. An estimated average of 1.8 million workers per week will receive unemployment benefits in fiscal 1990, the same number as in the current year. The increase in outlays is attributed to rises in weekly benefit amounts.

- **FAMILY ASSISTANCE** -- The administration requests budget authority for federal grants to states for Aid to Families with Dependent Children (AFDC) and Child Support Enforcement (CSE) totaling $11.172 billion in fiscal 1990, up from $10.892 billion in fiscal 1989. About 3.7 million families will receive AFDC benefits in 1990. This year's budget request reflects legislation to fund a 50-percent federal reimbursement of state program administration costs, fund fiscal 1990 costs at the fiscal 1989 level, and to index costs after 1990 by the GNP deflator. Currently, the federal government reimburses the states for over half the costs of administering the program.

  JOBS. The administration requests budget authority of $350 million to fund the job opportunities and basic skills training (JOBS) program, enacted as part of the Family Support Act of 1988, commonly known as welfare reform. JOBS is expected to replace the current WIN program (see above, under Employment and Training) and will require AFDC parents with children over age three to participate in a job training or education program.

  Food Stamps. Outlays for food stamps (including those for Puerto Rico) are expected to total $13.606 billion, down from $13.776 billion in fiscal 1989. An estimated 18.1 million people will receive benefits each month. The budget numbers reflect proposed legislation on federal reimbursement of state administrative costs identical to that proposed for the AFDC program.

- **MEDICAID** -- Medicaid is the largest and fastest growing federal grant to state and local governments. Health care spending has risen to 11 percent of this country's GNP, the highest rate of any industrialized nation. The president proposes to reimpose cost-containment incentives originally enacted in the Omnibus Budget Reconciliation Act of 1981, which expired in 1984. Proposed changes would allow budget authority for Medicaid to rise to $35.961 billion in fiscal 1990 from $34.292 billion in fiscal 1989, rather than the current services level of $37.616 billion. The proposed changes include:
  - -- reducing grants to the states by 3 percent in fiscal 1990, 4 percent in fiscal 1991, and 4.5 percent thereafter, unless states constrain program growth or suffer a high unemployment rate;
  - -- providing an offset to the reduction for states with high unemployment;

-- providing rebates to all the states successful in constraining program growth (spending would be allowed to increase at the rate of inflation for medical services); and
-- restructuring federal financing of program administration from a matching formula to a block grant set at 50 percent of base-year costs and indexed for inflation.

The federal share of administrative costs per recipient varies widely among states, ranging from a high of $181 to a low of $26 in 1988. In fiscal 1987, the Northeast-Midwest region received 54.6 percent of total Medicaid funding.

- COMMUNITY SERVICES BLOCK GRANT -- The president proposes to terminate the Community Services Block Grant, funded in fiscal 1989 at $380.6 million. This program provides a range of services to ameliorate the causes and impact of poverty on communities. It helps low-income participants obtain employment, education, housing, and emergency assistance, as well as other services. In fiscal 1989, the Northeast-Midwest region received 49.7 percent of the funds allocated.

- ENERGY -- President Reagan's fiscal 1990 budget request for energy echoes many of the themes of past years' submissions. The Department of Energy's budget continues to shift from energy programs to atomic energy defense and general science and research activities, despite the nation's drift toward greater dependence on imported oil and evidence of global warming. Budget authority for atomic energy defense activities would rise $927 million (11.4 percent) in fiscal 1990, while general science and research activities would increase $247 million (26.8 percent). In contrast, total outlays for energy programs are estimated to be $2.277 billion in fiscal 1990, a decrease of $1.860 billion (45 percent) from the fiscal 1989 level.

  The administration proposes to reduce research and development funds for fossil fuels from $380.5 million to $163.6 million in fiscal 1990, a 57.0 percent cut. Solar and renewable energy resources would be trimmed from $151 million to $114 million, a 24.5 percent reduction. Moreover, conservation programs would be cut 69.7 percent with conservation research and development falling from $161 million to $88 million. State and local energy conservation grants would be terminated.

  The administration estimates that the Treasury will receive $85 million in fiscal 1990 from the sale of assets of the Alaska Power Administration (two federal dams, their powerhouses and associated transmission lines). The sale of the Southeastern Power Marketing Administration would add an additional $1.200 billion. Selling the Naval Petroleum Reserves in Elk Hills, California, and Teapot Dome, Wyoming, would raise an estimated $1.000 billion in revenues. The administration proposes that the buyer be required to provide oil to the strategic petroleum reserve (SPR) to accelerate the fill rate to 75,000 barrels per day for 1990 through 1994, up from the 50,000-barrel fill rate for fiscal 1989. This would reduce federal outlays for the SPR purchases by $132 million. The administration also estimates receipts from initial oil and gas leasing on the coastal plain of the Arctic National Wildlife Refuge would provide another $2.101 billion in fiscal 1990 **(also mentioned in the natural resource section)**. Moreover, the administration proposes to increase fees to cover all administrative costs of the Nuclear Regulatory Commission, providing an additional $300 million in revenue.

The nation's five power marketing administrations (PMAs), none of which is located in the Northeast-Midwest region, benefit from billions of dollars in hidden subsidies because the federal government allows them to pay below-market interest rates, to borrow for project additions and improvements at interest rates that have not been increased in decades, to defer repayment of principal, to take 50 years to repay their debt, and to enjoy unquestioned access to the federal treasury. About 75 percent of the $16 billion federal investment in the PMAs has not been repaid. As a result, taxpayers in the Northeast-Midwest region, who typically pay at least twice as much for electricity, continue to subsidize electricity rates for customers served by these PMAs. The administration proposes to reduce these federal subsidies in several ways: requiring PMAs to make regular planned payments of unpaid principal; by adopting straight-line amortization schedules; and requiring PMAs to pay market-interest rates on new borrowing as well as on the unpaid federal investment. These changes would eliminate the practice of PMA's paying only 2 to 5 percent interest rates to make additions or modifications to older existing projects. The government would receive $900 million in 1990 from these proposed changes.

The administration also proposes reform of the Rural Electrification Administration's direct loan and loan guarantee program, which would reduce budget authority for rural electric and telephone systems from $1.488 billion to $109 million in fiscal 1990.

- LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP) -- The president proposes a 20.5 percent reduction in heating and cooling assistance from $1.383 billion in fiscal 1989 to $1.100 billion in fiscal 1990. The requested amount represents a 47.6 percent reduction since fiscal 1984. The administration justifies this reduction by arguing that the energy crisis has ended and that energy costs are no longer a large percentage of the costs of poor families. States in the Northeast-Midwest region received 64 percent of LIHEAP in fiscal 1988 and increasingly have had to supplement federal funding with state monies.

- ATOMIC ENERGY DEFENSE MODERNIZATION AND ENVIRONMENTAL CLEANUP -- The president has requested a significant increase in spending on environmental, safety, and health (ES&H) activities; radioactive waste management; and modernization of the Department of Energy's aging atomic energy defense complex. The administration seeks budget authority of $3.303 billion, an increase of $715 million (27.6 percent).

- DEFENSE -- The president requests $315.193 billion in budget authority for national defense in fiscal 1990, an increase of $16.388 billion or 5.5 percent. Proposed defense outlays would total $302.991 billion, an increase of $4.736 billion, 1.6 percent over fiscal 1989 levels. Budget authority for national defense in fiscal 1990 would represent 27.4 percent of the total federal budget.

  Military personnel would receive $79.845 billion in budget authority, 25.3 percent of the fiscal 1990 defense budget (down from 26.3 percent in fiscal 1989). The president's request for military personnel represents an increase of 1.6 percent above last year's level.

Operation and maintenance activities would receive $91.725 billion in budget authority, an increase of $5.786 billion or 6.7 percent. Defense-related procurement would see a $4.883 billion rise to $84.115 billion, a 6.2 percent increase. Requested budget authority for military construction is $5.280 billion, or $423 million less than the fiscal 1989 level, representing a decrease of 7.4 percent. Defense-related research and development would receive $41.024 billion in budget authority, an increase of $3.482 billion or 9.3 percent.

The president proposes that the Strategic Defense Initiative (SDI) receive $5.6 billion in fiscal 1990. This request represents an increase of $1.8 billion in budget authority.

- **NATURAL RESOURCES AND ENVIRONMENT** -- In fiscal 1990, outlays for natural resource and environment activities would decrease 12 percent and budget authority would fall by 24 percent. Larger contributions from states and user fees are expected to provide additional funding for some of these programs. Also included in revenue projections is receipt of $2.101 billion in fiscal 1990 from the sale of leases for oil and gas exploration and development of the Arctic National Wildlife Refuge.

  Water Quality. Construction grants again are the hardest hit environmental program. The president requests $1.200 billion in budget authority for Clean Water Act (CWA) construction grants in fiscal 1990, $750 million (39 percent) below the fiscal 1989 level. One-third of the funds would go for grants, and the other two-thirds to establishing state revolving loan fund programs (compared to only half as authorized in the 1987 CWA). This request is considerably below the $2.400 billion authorized for fiscal 1990 in the CWA. The reduced funding level and increased emphasis on revolving loan funds are part of the president's plan to phase out federal funding assistance for construction of municipal wastewater treatment systems by 1993, and to spend a total of only $12.000 billion from fiscal 1986 to fiscal 1993. Congress rejected a similar proposal in 1987, overriding the president's pocket veto of the CWA amendments and calling instead for spending $18.000 billion through fiscal 1994.

  The administration requests $11.4 million in fiscal 1990 for the EPA Great Lakes National Program Office--approximately $2 million (15 percent) less than last year. For the EPA Chesapeake Liaison Office, the administration recommends $11.963 million for fiscal 1990--a 2 percent decrease from the current year. Staffing allocations would be held at last year's levels for both programs--35.4 positions for the Great Lakes National Program Office and ten positions for the Chesapeake Liaison Office.

  Environmental Cleanup. Spending for cleanup of the nation's abandoned hazardous waste sites and leaking underground storage tanks would continue to increase in fiscal 1990. For the Hazardous Substance Response Fund (commonly referred to as Superfund), the president requests outlays of $1.375 billion and budget authority of $1.750 billion, representing an increase of approximately 20 percent in both outlays and budget authority over fiscal 1989 levels. This increase, coming after a large increase in fiscal 1989, reflects EPA's effort to meet cleanup deadlines mandated in the 1986 Superfund Amendments and Reauthorization Act.

The president's proposal includes $43 million in outlays under the Leaking Underground Storage Tank Trust Fund. Although the outlays reflect a 34 percent increase over fiscal 1989 levels, they continue to fall far short of the $100 million authorized by Congress for leaking tank cleanups.

Water Resources. Budget authority and outlays for the Army Corps of Engineers and the Bureau of Reclamation would stay roughly the same as in previous years. For the Army Corps of Engineers' civil works program, budget authority and outlays would be approximately $3.4 billion in fiscal 1990. These estimates reflect new user fees and cost-sharing policies established under the Water Resources Development Act of 1986. The president proposes 11 new construction starts, pending approval by state and local sponsors. In past years, about 20 percent of the Corps funds were spent in the Northeast-Midwest region.

Under existing law, budget authority and outlays for the Bureau of Reclamation would continue at roughly $1.073 billion. The administration, however, proposes to change the method of financing the operation, maintenance, and replacement of Bureau of Reclamation projects to reflect a more direct user-financed arrangement. If the proposed changes are adopted, budget authority would be reduced by slightly over $100 million. According to the budget proposal, the focus of the Bureau's activities in 1990 would be to complete ongoing construction and planning projects, all of which are located in 17 western states.

Clean Coal and Acid Rain. The fiscal 1990 estimates for the Department of Energy's Clean Coal Technology program include continued funding for existing demonstration projects and initiation of a third round of projects in spring 1989. To fund the new projects, the president proposes to reallocate the fiscal 1990 advanced appropriation of $575 million as follows: $190 million for fiscal 1990, $185 million for fiscal 1991, and $200 million for fiscal 1992. Combined with previous funding, therefore, the total budget authority for fiscal 1990 would be $325 million, with outlays projected to be $95 million. The president also is requesting additional advanced appropriations of $1.200 billion for fiscal 1993 to 1997. If approved, a total of approximately $2.500 billion would be spent to fulfill what the administration claims is a commitment to Canada to develop technologies that control acid rain. Some environmental organizations, however, question whether these demonstration projects will have a significant, near-term effect on pollution without specific emission-reduction requirements.

- **AGRICULTURE** -- The president's budget proposal for the Department of Agriculture (USDA) emphasizes greater market orientation for farm price and income support programs. It continues previous efforts to shift the federal government's farm credit activities from direct loans and grants to vouchers for rural housing and to guarantees of private-sector loans for farm, rural community, and utility loan programs operated under the auspices of the Farmers Home Administration (FmHA) and the Rural Electrification Administration (REA). The administration projects cash outlays for all USDA programs (including nutrition) at $42.428 billion--a $9.627 billion reduction (18.5 percent) from the current estimate for fiscal 1989.

The drought dominated farm news this past summer. It was not as widespread as the Dust Bowl droughts of the 1930s but it combined with an unprecedented

heat wave to create particularly devastating conditions. The drought drove up market prices for farm goods (because of commodity shortages) and reduced price-depressing inventories of surplus crops held by the government.

Net outlays for agricultural price supports peaked at $25.841 billion in fiscal 1986 and declined to $22.408 billion in fiscal 1987--the first year in which provisions of the 1985 farm bill were fully in effect. Outlays dropped further in fiscal 1988, to $12.461 billion. The administration estimates an 11.1 percent increase in fiscal 1989 Commodity Credit Corporation (CCC) outlays, to $13.843 billion. This total includes $9.328 billion for ongoing CCC programs, $3.600 billion for crop disaster payments under the 1988 Disaster Assistance Act, and $800 million for emergency livestock feed assistance related to the drought.

The administration estimates that net CCC outlays will decline by $2.264 billion (16.4 percent) in fiscal 1990, to $11.579 billion. The decline may be attributed to exceptionally strong grain exports, higher market prices, lower support rates (mandated under current law), a decline in government-held stocks, expected improvements in cotton markets, and completion of the 1988 disaster payment program. The administration proposes further CCC outlay reductions of about $1.1 billion in fiscal 1990 and $2.0 to $2.5 billion annually from fiscal 1991 through fiscal 1994. Target prices are scheduled for reductions under current law; the administration proposes additional reductions of about 5 percent annually. It also proposes additional reductions in outlays for non-target price commodities (such as dairy, by rescinding a 50-cent price support increase effective for three months beginning April 1, 1989) and a reduction in the share of program crops eligible for deficiency payments.

The administration proposes to reduce program levels for agricultural research and education from $1.306 billion in fiscal to $1.239 billion in fiscal 1990, a decline of $67 million (5.1 percent). Net outlays, however, would increase from $1.294 billion to $1.323 billion. Outlays for the Agricultural Research Service (ARS) would increase from $555 million to $588 million, principally to fund USDA participation in a government-wide water quality research program and to develop rapid-test methods to detect pesticide and bacterial residues in meat and dairy products. Outlays for the Cooperative State Research Service (CSRS) would decline from $312 million in fiscal 1989 to $307 million in fiscal 1990. Outlays for Extension Service programs would decline from $353 million to $327 million. In fiscal 1987, the Northeast and Midwest received 39.8 percent of ARS expenditures, 38.1 percent of CSRS expenditures, and 35.3 percent of Extension Service expenditures.

The 1985 farm bill authorized creation of a 45 million-acre Conservation Reserve Program (CRP) to retire highly erodible land and reduce production of surplus crops. Outlays will increase from $1.652 billion to $1.771 billion as CRP enrollment reaches 40 million acres. Outlays defray rental payments, technical assistance, and cost-sharing to establish vegetative cover. When complete, the CRP will prevent up to 466 million tons of soil erosion annually and reduce commodity program bases by 14.6 million acres. The Northeast and Midwest have 33.0 percent of the nation's cropland but just 26.1 percent of the cropland eligible for the CRP.

- **TRANSPORTATION** -- The administration's proposed budget for transportation contains priorities similar to those of last year: it emphasizes user fees as the primary source of revenue (74 percent) for transportation expenses, the elimination of subsidies for Amtrak, and the continuation of the Federal Aviation Administration's (FAA) modernization program.

  The administration proposes to lower annual obligations for the federal-aid highways program from an estimated $13.400 billion in fiscal 1989 to $12.400 billion in fiscal 1990. This reduction would limit obligations from the highway account of the highway trust fund to receipts from anticipated user fees anticipated during the 1987-1991 authorization period.

  As in the past, the president seeks to limit mass transit funding to the level raised by the dedicated one-cent per gallon tax on gasoline, thus requesting $1.6 billion in budget authority for fiscal 1990. The administration would eliminate the mass-transit discretionary grant program and distribute fuel tax receipts by formula, thereby reducing mass transit funding by $1.0 billion in fiscal 1990. States and localities could use their formula grant funds on public transportation capital projects, provided they match the contibutions by at least 50 percent. The administration also proposes to terminate operating subsidies to large and medium-sized cities ($800 million in fiscal 1989) but not to small urban and rural areas.

  The administration proposes to eliminate all Amtrak subsidies and northeastern corridor improvement assistance programs in fiscal 1990, cutting the Federal Railroad Administration's budget authority from approximately $672 million in fiscal 1989 to $52 million in fiscal 1990. With the elimination of these subsidies, the administration assumes a savings of $620 million.

  The administration has requested budget authority of $7.743 billion for the Federal Aviation Administration (FAA) for fiscal 1990, a 17 percent increase over the $6.631 billion provided in fiscal 1989. A primary reason for the requested funding increase is the FAA's airspace modernization program, for which the administration is requesting $2.0 billion in budget authority, $571 million more than the amount appropriated to it in fiscal 1989. In addition, the administration requests a 14 percent increase in funding for FAA operations, up from $3.400 billion in fiscal 1989 to $3.900 billion in fiscal 1990.

- **FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION** -- The president's budget request for the Federal Savings and Loan Insurance Corporation (FSLIC) includes budget authority of $24.992 billion during fiscal 1989 and fiscal 1990 and approximately $64.030 billion over the six-year period 1989 to 1994. The administration proposal would allow FSLIC to spend $15.914 billion in fiscal 1989 and $9.078 billion in fiscal 1990; it expects FSLIC to collect revenues of $7.182 billion in fiscal 1989 and $7.008 billion in fiscal 1990 from increased user fees and sales of loans and real assets. FSLIC's net outlays would total $8.730 billion in fiscal 1989 and $2.068 billion in fiscal 1990. Spending compared with revenues over the six-year period may approach total spending of $64.03 billion and total revenues of $33.433 billion; these estimates indicate net outlays for insolvent savings and loan institutions of $30.597 billion. The vast majority of these insolvent thrifts are located in the Southwest.